

# FINANCIAL INSTITUTIONS COMMISSION

ANNUAL REPORT  
2001/2002



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COLUMBIA

MINISTRY OF FINANCE

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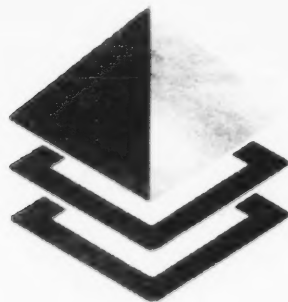
# **ANNUAL REPORT 2001-2002**

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## **FINANCIAL INSTITUTIONS COMMISSION**



**Credit Union Deposit Insurance Corporation  
of  
British Columbia**



**Financial Institutions Commission of British Columbia  
"FICOM"**

Including:

**The Superintendent of Financial Institutions  
The Superintendent of Real Estate  
The Registrar of Mortgage Brokers  
The Credit Union Deposit Insurance Corporation**

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***The Financial Institutions Commission administers 10 statutes:***

- **Community Financial Services Act** - provides a framework for the regulation and operation of the B.C. Community Financial Services Corporation ("Four Corners Community Savings").
- **Credit Union Incorporation Act** - provides a corporate governance framework for credit unions consistent with their co-operative characteristics.
- **Financial Institutions Act** - provides a regulatory framework to govern all provincially regulated financial institutions including trust companies, insurance companies and credit unions. It also provides the licensing and regulatory framework for insurance agents, salespersons and adjusters under the supervision of the Insurance Council of British Columbia. Finally, the Act provides for a credit union deposit insurance fund.
- **Insurance Act** - provides certain statutory requirements for contracts of insurance.
- **Insurance (Captive Company) Act** - establishes British Columbia as a domicile for captive insurance companies and provides a registration and regulatory framework for captive insurance companies.
- **Insurance (Marine) Act** - provides certain statutory requirements for contracts of marine insurance.
- **International Financial Business Act** - establishes a licensing and regulatory framework for financial institutions to register in British Columbia to carry on international financial business.
- **Mortgage Brokers Act** - provides a registration and regulatory framework for mortgage brokers who deal with the public.
- **Real Estate Act** - Part 1 of the *Real Estate Act* provides the licensing and regulatory framework for real estate agents, salespersons and property managers under the supervision of the Real Estate Council of British Columbia.

Part 2 of the Act provides a regulatory framework for the sale of subdivisions, including strata developments, co-operatives, shared interests and time shares.

- **Strata Property Act** - provides a framework for the development, governance and management of strata corporations.

Copies of the statutes are available at a modest cost from:

Crown Publications  
521 Fort Street  
Victoria, British Columbia V8W 1E7  
Phone: [250] 386-4636  
Fax: [250] 386-0221

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## **FICOM Commissioners 2001/2002**

### **Chair**

|                       |                      |
|-----------------------|----------------------|
| J. Stewart Cunningham | Professional Actuary |
|-----------------------|----------------------|

### **Vice-Chair**

|                 |                      |
|-----------------|----------------------|
| Sharron Simpson | Writer and Publisher |
|-----------------|----------------------|

### **Commissioners**

|                                        |                                                                                                      |
|----------------------------------------|------------------------------------------------------------------------------------------------------|
| Dr. Ronald Giammarino                  | Professor of Finance,<br>University of British Columbia                                              |
| Ram Hira                               | Barrister and Solicitor                                                                              |
| Alice Laberge                          | Consultant                                                                                           |
| Wallace Mah                            | Chief Administrative Officer,<br>Town of Smithers                                                    |
| Edith Skiber                           | Retired, Former Credit Union Director                                                                |
| Chris Trumpy*<br>( <i>ex officio</i> ) | Deputy Minister of Finance,<br>Ministry of Finance,<br>Province of British Columbia                  |
|                                        | *Represented by Leon de Wet, Director,<br>Financial and Corporate Sector Policy, Ministry of Finance |
| Dr. Geoffrey Young                     | Consultant                                                                                           |

## Report of the Commission Chair

This past year saw the Financial Institutions Commission continue to provide solid regulatory oversight of the financial services sector in British Columbia, and it has again been my pleasure to serve as the Chair of the Commission. FICOM has many important regulatory responsibilities and the fiscal year 2001-2002 presented many challenges to which the staff of FICOM responded well.

It was, of course, the year in which the tragic events of September 11 affected us all. The resulting moves to counter terrorism brought new responsibilities for FICOM under the United Nations Suppression of Terrorism Regulations and under revisions to the Canadian criminal code. All credit unions, trust companies and insurance companies incorporated in British Columbia must now file a monthly report with FICOM detailing any transactions involving parties suspected of terrorist activities. These parties are identified by FICOM's federal counterpart, the Office of the Superintendent of Financial Institutions and listed on that agency's website.

A major policy review was undertaken with the Ministry of Finance and FICOM jointly hiring a consulting firm to prepare a discussion paper on possible changes to the way that financial institutions and financial intermediaries are regulated in British Columbia. This review is part of the government-wide deregulation initiative. The discussion paper has been scheduled for publication for the summer of 2002, following our fiscal year-end, with responses to the paper expected in the fall of 2002.

The consolidation of BC credit unions continued this past year, with a number of significant amalgamations. As we move forward, the BC credit union system will now include two institutions with assets of more than \$6 billion, at least four more with assets greater than \$1 billion, approximately thirty-five with assets greater than \$100 million, and a further thirty smaller credit unions. This evolving system structure and the complexity of larger financial institutions will require diligent regulatory oversight.

It was also a year in which the importance of FICOM's investigative role was highlighted with a number of high-profile financial services investigations. It is always unfortunate when members of the public are victimized and the investigative role of FICOM is tremendously important.

With the continuing pace of change in the financial services sector, I anticipate that the coming year will again offer many new challenges for FICOM. I am confident that FICOM will continue to effectively meet these challenges, and I am looking forward to my continued involvement with this organization.



J. Stewart Cunningham

## **FICOM Executive Management**

(All positions listed as at March 31, 2002)

CEO, Superintendent of Financial Institutions,  
Superintendent of Real Estate and  
Registrar of Mortgage Brokers ..... W. Alan Clark

Executive Director of Investigations (Acting) ..... Kenneth J. Fraser

Executive Director of Administrative Policy,  
Finance and Administration ..... Ross W. Gentleman

Deputy Superintendent of Insurance ..... Michael Grist

Deputy Superintendent of Credit Unions and  
Trust Companies ..... Vacant

Deputy Superintendent of Real Estate and  
Deputy Registrar of Mortgage Brokers (Acting) ..... L. Jay Mitchell

Executive Director, Examinations ..... Garry E. Wadham

### **Quick Facts:**

- *The British Columbia Credit Union movement is the second largest in Canada after the caisses populaires in Quebec. BC Credit Unions hold an approximately 20% share of the retail banking and lending markets in BC.*
- *As of March 31, 2002, there were 65 retail credit unions authorized to conduct business in the province. The BC Credit Union movement had assets of over \$25 billion at the end of 2001.*
- *The insurance market in British Columbia is the third largest in Canada. At March 31, 2002, a total of 266 insurance companies were authorized to operate in British Columbia by FICOM. Annual insurance premiums in British Columbia exceeded \$4 billion last year, exclusive of automobile insurance.*

## Report of the Superintendent and CEO

Our tenth annual report provides an overview of the Commission's achievements during the past fiscal year of April 1, 2001, through March 31, 2002. During this period a number of strategic changes were initiated that will affect how we perform our day-to-day functions.

We began the transition to a risk-based regulatory framework that will help us meet the challenges of the constantly evolving financial services sector. This transition will involve a comprehensive review of our organizational structure and the analysis of virtually every business process involved in our day-to-day functions. Of particular importance, this new framework will help us reduce regulatory burden and increase our effectiveness as a financial services regulator.

We have also taken steps to substantially improve our external communications. Our website now contains information bulletins, consumer alerts, and information on the Strata Property Act, including twenty-seven instruction guides. We also produced a new brochure entitled "Shopping for Financial Services on the Internet" which is posted on our website. We will be continuing to improve our external communications in the upcoming year.

We completed surveys of both our staff's views of their professional environment, and of our stakeholders' perceptions of FICOM and the financial services sector in British Columbia. The responses to both surveys provided valuable information that has been instrumental in our planning and development.

All in all, the past year was a year of significant change for FICOM and I am proud of how well our employees continue to meet the challenges that we face. I thank all of our staff for their highly commendable efforts this past year. I would also like to thank our commissioners for their valued contribution during the year.



W. Alan Clark

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## FICOM's Role, Responsibilities and Organization

### Regulatory Authority

FICOM is comprised of up to 11 commissioners and has a complement of 81 staff budgeted for this past fiscal year. FICOM commissioners are appointed by the Lieutenant Governor in Council on the recommendation of the Minister of Finance.

Commissioners have two principal roles in the administration of the *Financial Institutions Act*, the *Credit Union Incorporation Act* and the *Community Financial Services Act*.

- Provide recommendations to the Minister of Finance on major regulatory decisions related to incorporations, business authorizations, mergers, liquidations and wind-ups; and
- Make credit union stabilization, supervision and deposit insurance decisions. Stabilization and supervision are regulatory powers used to assist credit unions that are experiencing financial or other difficulties.

Commissioners have no legislative responsibilities with respect to the other statutes administered by FICOM.

Commissioners serve as directors of the Credit Union Deposit Insurance Corporation of BC (CUDIC), under the provisions of the *Financial Institutions Act*.

The Superintendent and CEO holds the positions of Superintendent of Financial Institutions, Superintendent of Real Estate, and Registrar of Mortgage Brokers and, accordingly, exercises the powers delegated to these positions.

### Solvency Regulation

Before a credit union, trust company or insurance company can operate in British Columbia, it is required to obtain a business authorization from the Financial Institutions Commission. The *Financial Institutions Act* specifies a number of financial and other requirements that must be met before a business authorization can be granted. Thus, the starting point for solvency regulation is to ensure that only financial institutions that meet certain financial and other requirements are permitted to operate in British Columbia.

Once a financial institution is authorized to conduct business, solvency regulation involves ongoing monitoring to ensure prudent operation and compliance with regulatory rules and guidelines. Financial institutions incorporated in British Columbia are examined annually.

If this monitoring identifies non-compliance with requirements, FICOM has the authority and responsibility to ensure that the financial institution remedies the situation in a timely manner.

### Authorized Companies

*Names and addresses of all financial institutions that are authorized by the provincial government to conduct business in British Columbia are listed on FICOM's website.*

### BC Credit Union Movement in Good Financial Condition

- From 1990 through 2001, BC credit union assets have grown an average 7% per year.
- The **Standard and Poor's** bond rating for **Credit Union Central** is currently investment grade. A July 26, 2002, release listed the rating as "A" with a stable outlook.
- From 1990 through 2001, BC credit union membership has grown an average 3% per year.

Under the *Financial Institutions Act*, institutions that are incorporated in other jurisdictions are not required to meet as rigorous a set of prudential requirements provided that adequate regulatory safeguards exist in the incorporating jurisdiction.

Despite regulatory rules and monitoring, however, financial institutions do on occasion become insolvent. Regulation reduces the risk of insolvency, but cannot guarantee total safety and protection for consumers.

Consumers, if uncertain about the financial stability of a financial institution, are encouraged to examine its audited financial statements. The *Financial Institutions Act* requires each credit union, trust company and insurance company conducting business in British Columbia to allow a member of the public to examine its financial statements and auditor's report at the company's business office. In addition, for a reasonable fee, the *Financial Institutions Act* requires a financial institution to provide a copy of its audited financial statements to a member of the public upon request.

### Market Conduct Regulation

The legislation that FICOM administers provides a number of regulatory rules that govern conduct in the market place. These regulatory rules are generally in place to ensure that consumers are served by ethical and competent people. As well, the rules help to ensure that consumers are provided with sufficient information to make rational decisions.

FICOM's general approach to market conduct regulation is to respond to complaints from the public. All complaints are analysed, investigated and, if necessary, acted upon. In most instances, an investigation involves contact with the subject of the complaint to advise of the requirements of the applicable legislation. This often results in voluntary compliance and no need for further action. Other responses to complaints include warnings, orders to cease, disciplinary orders or prosecution for offences under the acts administered by FICOM or under the Criminal Code of Canada. Bulletins to the industry are also issued if information suggests that there is widespread misunderstanding of a specific statutory requirement.

Market conduct regulation, however, does not extend to specific contractual disputes. FICOM is only empowered to respond to violations of statutes and does not have powers to order restitution for specific claims. FICOM's authority is limited to ensuring that statutory violations cease and, if appropriate, imposing regulatory sanctions.

Contractual disputes must be resolved by the parties involved.

Market conduct rules vary to some extent among the statutes administered by FICOM. These rules and other background information are available to the public, together with information on known scams and regulatory actions taken, on the FICOM website.

### Puget's Sound Agricultural Society

*An organization based in the U.S. began unauthorized selling of insurance in British Columbia. It operated as **Puget's Sound Agricultural Society** and as **PSASL**.*

*Prompt regulatory action followed. A Cease and Desist Order was issued on February 28, 2002. As a result, the activities were suspended and the society's bank accounts were frozen.*

*It is estimated that significant future consumer losses from non-payment of insurance claims have been averted.*

*Approximately \$250,000 US of assets were frozen. American authorities are currently conducting an investigation into the organization with FICOM's assistance.*

## Organization of FICOM

FICOM is organized into six departments that all report to the CEO. These departments are as follows:

### Credit Union and Trust Companies

Responsible for the regulation of credit unions and trust companies under the *Financial Institutions Act*, *Credit Union Incorporation Act* and *Community Financial Services Act*.

### Insurance

Responsible for the regulation of insurance companies under the *Financial Institutions Act*, *Insurance Act*, *Insurance (Captive Company) Act*, *Insurance (Marine) Act*, and *International Financial Business Act*. Responsible for working with the Insurance Council of BC, which oversees licensed insurance agents, adjusters and salespeople.

### Real Estate and Mortgage Brokers

Responsible for some regulatory activities under the *Real Estate Act*, the *Mortgage Brokers Act*, and the *Strata Property Act*. Responsible for working with the Real Estate Council of BC, which oversees real estate agents and salespersons, and property managers.

### Investigations

Responsible for investigating statutory breaches of all acts administered by FICOM as well as undertaking investigations into related criminal matters.

### Examinations

Responsible for examinations of credit unions, trust companies and insurance companies to ensure statutory compliance.

### Administrative Policy, Finance and Administration

Responsible for support to the other departments, including research and policy development, communications, accounting, human resources, information systems, and co-ordination of Freedom of Information Act requests.

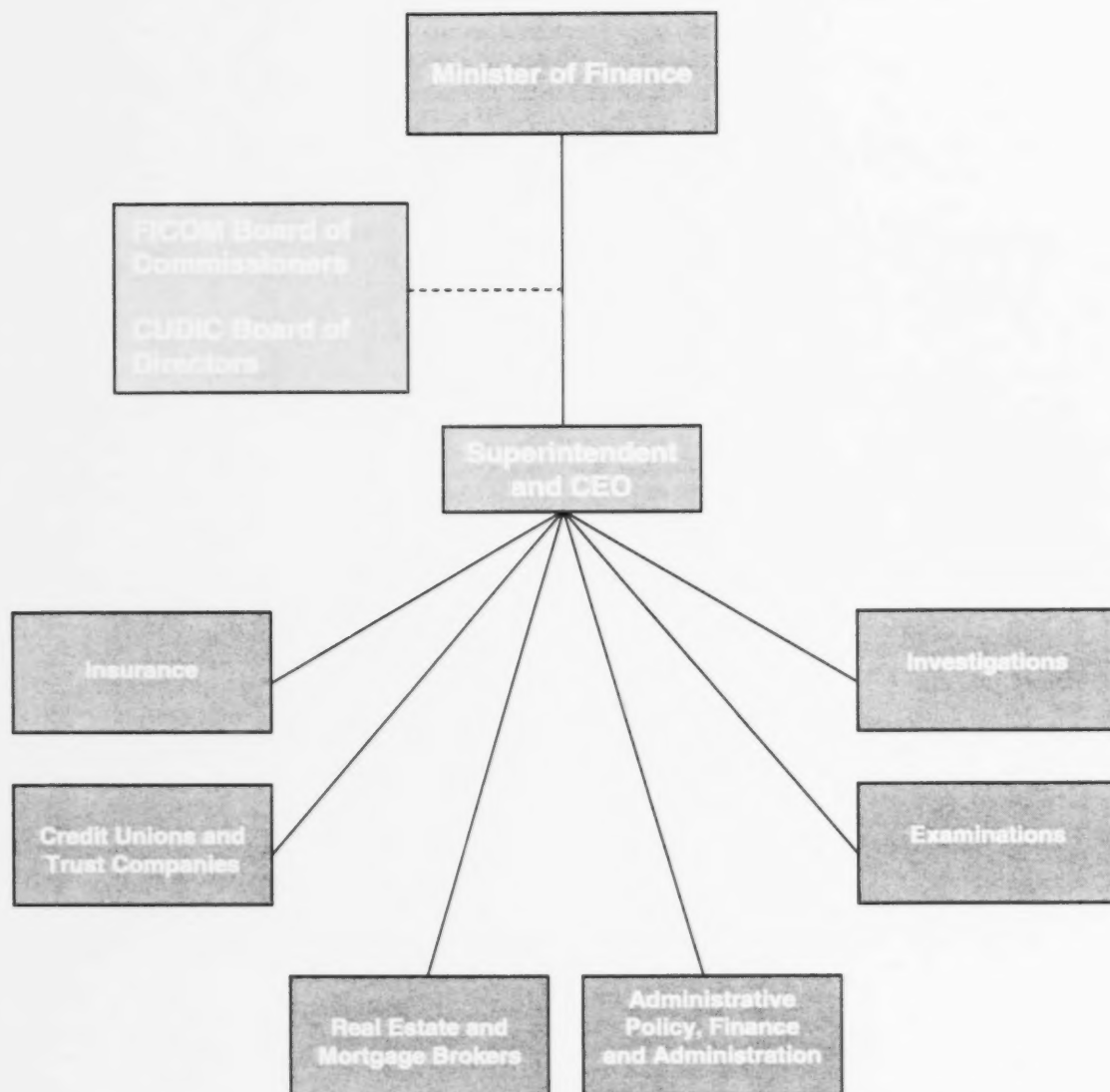
### FICOM Investigation Leads To Criminal Convictions

**Harold Schneider**, a real estate developer, operating under a numbered company, 479174 BC Ltd., and his employee **Wayne Seabrook**, promoted a strata development in the Revelstoke area. The development went into receivership before it was completed, with purchasers unable to secure title to their units. Deposits and other advance payments are strictly to be held in trust by real estate developers under Part 2 of the Real Estate Act.

The men were found to have misappropriated over \$600,000 of funds drawn from purchase deposits and from other advance payments made by purchasers of units in the development. Most of the purchasers were pensioners and elderly persons.

Both of the men were found guilty on February 21, 2001, before the Honourable Justice F. Cole of violating **Section 380 (1) a** of the Criminal Code.

## Organizational Chart



## Performance Plan Report

The Performance Plan for 2001/2002 identified three goals for FICOM and provided measures and milestones for those goals. FICOM has been diligent in pursuing these goals during the past year and can report considerable success in achieving them.

### **Goal 1:**

**That BC consumers generally have confidence in the financial institutions authorized to operate in BC and the licensed/registered professionals that provide financial and real estate services.**

In response to its first goal, FICOM identified a number of activities that it would undertake:

### **Conduct a Consumer Survey**

FICOM completed a survey of consumers' perceptions. The firm Ipsos Reid was hired and the survey conducted in the period February 4, 2002, through February 11, 2002. The key findings were threefold:

- British Columbians think that credit unions and insurance companies operating in the province provide good customer service and are financially stable.
- British Columbians think that the regulations to protect against improper marketing practices and institution failure are adequate.
- When asked if they are aware of FICOM, one in five respondents answers yes.

Opinions on a wide variety of other issues were also surveyed.

### **Produce a Brochure on Unauthorized Internet Business**

A brochure entitled "Shopping for Financial Services on the Internet" was produced and has been posted on the FICOM website.

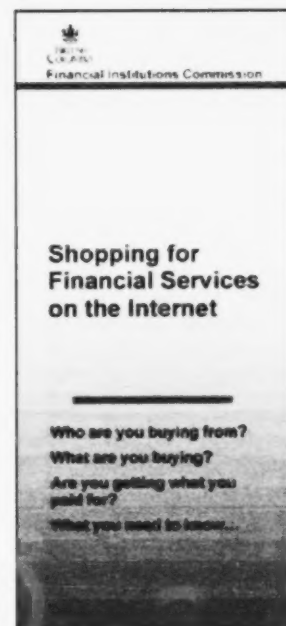
### **Redevelop the FICOM Website**

The FICOM website was successfully redeveloped. It now meets the provincial government's standards for appearance and accessibility, and is consistent with the Ministry of Finance's website.

A number of new features were added to the site, including "Popular Topic," "New Releases," "Consumer Info" and "Consumer Alerts." The site now offers a substantial quantity of consumer information bulletins on specific topics. Additional consumer information will be added in the next year.

### **Publish Regulatory Orders and Related Information on the FICOM Website**

FICOM now publishes information bulletins and consumer alerts concerning its regulatory actions on the FICOM website.



**Goal 2:**

**That those regulated generally consider that they have been treated fairly.**

FICOM undertook a number of activities in support of this goal:

**Conduct a Stakeholder Survey**

A detailed survey of FICOM stakeholders was conducted.

Overall:

- 70% of mortgage brokers either strongly agreed or agreed that FICOM administered the Mortgage Broker Act in a fair and reasonable manner.
- 100% of insurance companies either strongly agreed or agreed that FICOM administered the Financial Institutions Act or Insurance Act in a fair and reasonable manner.
- 82% of credit unions either strongly agreed or agreed that FICOM administered the Credit Union Incorporation and Insurance Act in a fair and reasonable manner.

| Stakeholder Group   | Response Rate |
|---------------------|---------------|
| Mortgage Brokers    | 22%           |
| Insurance Companies | 24%           |
| Trust Companies     | 10%           |
| Credit Unions       | 42%           |

Regarding the conduct and knowledge of FICOM personnel:

- 78% of mortgage brokers were either very satisfied or satisfied.
- 88% of insurance companies were either very satisfied or satisfied.
- 78% of credit unions were either very satisfied or satisfied.

**Pat Derrick Property Management Ltd.**

*On April 4, 2000, the Superintendent of Real Estate suspended the license of **Pat Derrick Property Management Ltd.**, a Penticton-based property management firm, and ordered that all assets be frozen. An investigation revealed a shortfall of over \$1 million in trust accounts maintained by the firm. A receiver was appointed and a criminal investigation undertaken.*

*This investigation lead to an employee of the firm being charged with three counts of uttering forged documents, two counts of fraud and one count of theft. A trial date in the matter is set for March 2003.*

Regarding the clarity, timeliness, relevance and availability of FICOM communications materials:

- 67% of mortgage brokers were either very satisfied or satisfied.
- 88% of insurance companies were either very satisfied or satisfied.
- 89% of credit union were either very satisfied or satisfied.

A number of suggestions were fielded and FICOM staff will be reviewing them.

### Revise Credit Union Reporting

A number of changes were made to revise credit union regulatory reporting requirements to better track emerging risks. FICOM added three requests of medium and large credit unions to better track emerging risks:

- a copy of the credit union's strategic plan,
- information on interest-rate-related derivatives, and
- detailed data extracts on loan portfolios.

FICOM is currently implementing a new risk-based regulatory system that will refocus the reporting requirements of institutions and the supervisory activities of FICOM on high-risk functions of institutions. This process is being undertaken within a multi-year implementation period.

### Harmonize "Classes of Insurance" Project

The Canadian Council of Insurance Regulators (CCIR) has endorsed a new set of classes of insurance that each jurisdiction has committed to adopt over the next three years. Some issues raised by the federal government will require further review in the coming year. Consultation on, and the drafting of, new classes of insurance regulation will commence in the coming year.

| Real Estate and Mortgage Broker Services |                  |                  |
|------------------------------------------|------------------|------------------|
|                                          | 2000/2001        | 2001/2002        |
| <b>Real Estate Services</b>              |                  |                  |
| Prospectuses Accepted                    | 17               | 15               |
| Disclosure Statements                    | 292              | 249              |
| Disclosure Amendments                    | 385              | 393              |
| Real Estate Act Exemptions               | 9                | 6                |
| Timeshare Amendments                     | 29               | 27               |
| <b>Mortgage Broker Services</b>          | <b>2000/2001</b> | <b>2001/2002</b> |
| New Mortgage Broker Registrations        | 128              | 82               |
| New Sub-Broker Registrations             | 311              | 286              |
| Mortgage Broker Renewals                 | 158              | 211              |
| Sub-Mortgage Broker Renewals             | 286              | 398              |
| Transfers                                | 160              | 174              |
| Terminations                             | 233              | 254              |
| Amendments                               | 170              | 273              |
| <b>Strata Property Services</b>          | <b>2000/2001</b> | <b>2001/2002</b> |
| Strata Plan Approvals                    | 368              | 163              |
| <b>Information Requests</b>              | <b>2000/2001</b> | <b>2001/2002</b> |
| Letters                                  | 3,778            | 4,719            |
| Telephone Calls                          | 15,751           | 14,650           |

### Information-Sharing Agreement with the Office of the Superintendent of Financial Institutions (OSFI)

FICOM has initiated discussions with OSFI on a comprehensive information sharing agreement and is already receiving information exchanges on insurance companies.

### Operational Links With New Federal Agencies

The Canadian Council of Insurance Regulators (CCIR) has initiated discussions with the Financial Consumer Agency of Canada (FICA) on establishing operational links. FICA is the new federal agency that works with the Office of the Superintendent of Financial Institutions (OSFI) and Canada Deposit Insurance Corporation (CDIC) to educate and protect consumers about financial services. FICOM is initiating a process to reach a memorandum of understanding with this federal agency on insurance related matters.

### Comprehensive Review of Real Estate Related Programs

This review was postponed until the subsequent fiscal year.

### **Publish More Information on the FICOM Website**

The FICOM website was substantially improved during the past year, with numerous hyperlinks added to provide Internet access to FICOM publications. A partial list of the information now available on the Internet follows:

- FICOM Performance Plan (now Service Plan)
- FICOM Annual Report
- List of Credit Unions with British Columbia business authorizations
- List of Trust and Loan Companies with British Columbia business authorizations
- List of Insurance Companies with British Columbia business authorizations
- CUDIC Financial Statements

The website now includes many other industry-specific links.

### **Review the Appropriate Size for the Deposit Insurance Fund**

FICOM has initiated discussions with Stabilization Central Credit Union regarding the fund size and a Size of Fund Committee has been struck, with the FICOM chair, J. Stewart Cunningham, representing FICOM. A specific, updated policy on the fund's size has not been concluded, the fund requirement for CUDIC remains at 57.5 basis points.

### **Goal 3:**

**That the organization be strong, competent, resilient and adaptable to fulfill its specific and general statutory duties, and continue to perform in a cost-effective manner.**

To achieve its third goal, FICOM identified in its Performance Plan a number of activities that it would undertake:

### **Survey staff for perceptions and suggestions**

A survey conducted in January 2002 asked employees for their opinions on four subjects:

- the benefits of the employment relationship to both the employee and employer,
- personal/professional development,
- the "valuable" contributions of staff, and
- the recognition of and rewards for staff.

Employees indicated that they have considerable satisfaction with their employment, and individuals find their work "interesting," "challenging," "enjoyable," "varied" and "important."

## Examinations, Reviews and Approvals

The Performance Plan required that:

- All BC credit unions, insurance companies and trust companies were to be examined during the year;
- All financial returns, policy amendments, disclosure statements, rule changes and other filings be reviewed promptly; and
- Problem financial institutions and licensees/registrants be subject to appropriate action.

All BC credit union, insurance companies and trust companies were examined during the year. At year-end, a total of 11 credit unions were being monitored for one or more risk related reason, including low earnings, regional economic decline, high lending delinquency, higher-risk loan products and overall financial performance. Two credit unions were under supervision at year-end: Khalsa Credit Union and Allied Savings Credit Union.

## Unauthorized Deposit-Taking Activities

*Following an investigation by FICOM, it was found that a Burns Lake-based firm, 439288 B.C. Ltd., was accepting deposits without authorization. These funds were then being loaned to other individuals and businesses in the Burns Lake area.*

*The firm has now declared bankruptcy and a receiver has been appointed.*

*FICOM continues to investigate.*

| Regulation of Financial Institutions - Operational Overview                |      |      |
|----------------------------------------------------------------------------|------|------|
| Authorized Financial Institutions in British Columbia                      | 2001 | 2002 |
| Authorized Credit Unions                                                   | 71   | 65   |
| BC Incorporated Trust Companies                                            | 5    | 5    |
| BC Incorporated Insurance Companies                                        | 8    | 8    |
| Extra-Provincial Trust Companies                                           | 46   | 48   |
| Extra-Provincial Insurance Companies                                       | 258  | 258  |
| Regulatory Activities                                                      | 2001 | 2002 |
| Business Authorization Applications for Trust Companies – Approved         | 1    | 7    |
| Business Authorization Applications for Insurance Companies – Approved     | 6    | 0    |
| Registration of New Reciprocal Exchanges – Approved                        | 1    | 1    |
| Revocation of extra-provincial insurance company authorizations – Approved | 7    | 0    |
| Credit Union Mergers                                                       | 6    | 6    |
| Credit Unions Under Supervision                                            | 2    | 2    |
| Credit Union Examinations Under the Financial Institutions Act             | 86   | 75   |
| Investment and Lending Policy Changes Reviewed                             | 135  | 127  |
| Credit Union Regulatory Approvals and Filings                              | 377  | 502  |

## Complaint Investigations

The 2001/2002 Performance Plan required that FICOM investigate all complaints of serious non-compliance or criminal activity, with disciplinary and/or criminal charges pursued where necessary. The Investigations Department opened 209 files during the year, compared to 208 in the previous year. These investigations comprised:

- 87 real estate investigations
- 52 insurance investigations
- 60 mortgage broker investigations
- 4 credit union investigations
- 4 trust company investigations
- 2 miscellaneous investigations

FICOM Info on the Internet - <http://www.fic.gov.bc.ca>

The Investigations Department concluded 191 files during the year, compared to 232 in the previous year:

- 78 real estate investigations
- 35 insurance investigations
- 66 mortgage broker investigations
- 4 credit union investigations
- 6 trust company investigations
- 2 miscellaneous investigations

At the start of the year, 105 files were open, and at the conclusion of the year, 123 were open. In support of the investigations, the following were undertaken:

- 9 search warrants were executed
- 8 Financial Institutions Act orders were executed
- 14 Mortgage Brokers Act Orders were executed
- 6 Real Estate Act Orders were executed

As a result of the investigations detailed above, 16 persons/ companies were charged with 39 offenses: 30 criminal code offenses and 9 provincial statute offenses.

### Staffing

Review staffing requirements to ensure resources are suitable to evolving demands.

External consultants were engaged to review existing work processes and develop job accountabilities and action plans for recruitment, compensation, training and performance management that would support FICOM's business strategy.

### Budget

The Performance Plan identified providing a small contribution to the Consolidated Revenue Fund as a measure of meeting its budget target.

FICOM has again been able to contribute a modest amount to the Consolidated Revenue Fund. The Financial Report in the following section provides full details.

### Insurance-Related Court Case

*It came to the Superintendent's attention that the Bank of Nova Scotia and a marketing company hired by the bank, Optima Communications, appeared to be engaged in the unlicensed sale of insurance products in British Columbia. The Superintendent placed the bank and Optima on notice of his intention to issue an order that they cease marketing insurance.*

*The bank asserted that it is exempt from provincial insurance regulations, a constitutional issue. The Superintendent and the bank agreed to have the matter heard by the Supreme Court of British Columbia.*

*The Court found in favour of the Superintendent. The bank has appealed the matter to the BC Court of Appeal and a judgment's expected in the fall of 2002.*

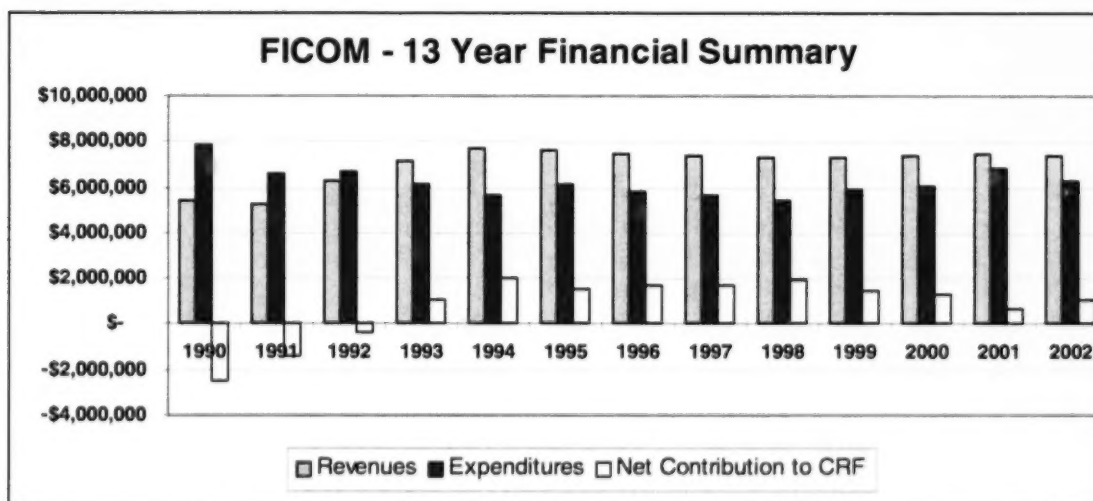
## Financial Report

FICOM expenditures are fully recovered from fees and assessments, and total expenditures have remained quite stable throughout the past decade.

Funding for FICOM is provided in the provincial government main Estimates (the Budget) for the Ministry of Finance. A nominal net expense of \$1,000 is authorized. This funding mechanism requires that FICOM's expenditures be recovered from fees and assessments. In 2001/2002, FICOM's gross actual expenditures were \$6.8 million, \$625,000 under budget. Approximately 68% of the expenditures were for staff and professional services.

Actual revenues (recoveries) were \$7.8 million in 2001/2002. These recoveries were comprised of transfers from CUDIC for expenditures incurred by FICOM for credit union deposit insurance, supervision and stabilization matters (\$1.6 million), and annual licensing fees and assessments (\$6.7 million). CUDIC's complete financial statements are included in the following section.

In total, FICOM generated an excess of recoveries over expenditures of \$1.1 million during 2001/2002. These funds were transferred to the provincial government's Consolidated Revenue Fund to offset government overheads that are not fully accounted for in FICOM's budget.



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## Credit Union Deposit Insurance Corporation (CUDIC)

The Credit Union Deposit Insurance Corporation of British Columbia (CUDIC) is a separate entity from the Financial Institutions Commission under the provisions of the *Financial Institutions Act*. The mandate of CUDIC is to guarantee deposits and non-equity shares of depositors of British Columbia credit unions up to the limits prescribed by the *Financial Institutions Act*. Details regarding deposit insurance coverage can be obtained by contacting FICOM or through FICOM's website.

To meet its depositor protection responsibilities, CUDIC undertakes administrative and regulatory functions as set out in the *Financial Institutions Act*, makes deposit insurance payments and may provide financial assistance to credit unions. To maintain the deposit insurance fund, CUDIC is empowered to assess credit unions and to issue debentures. The CUDIC assessment in 2001/2002 was two basis points of credit union deposits, a total of \$4.3 million.

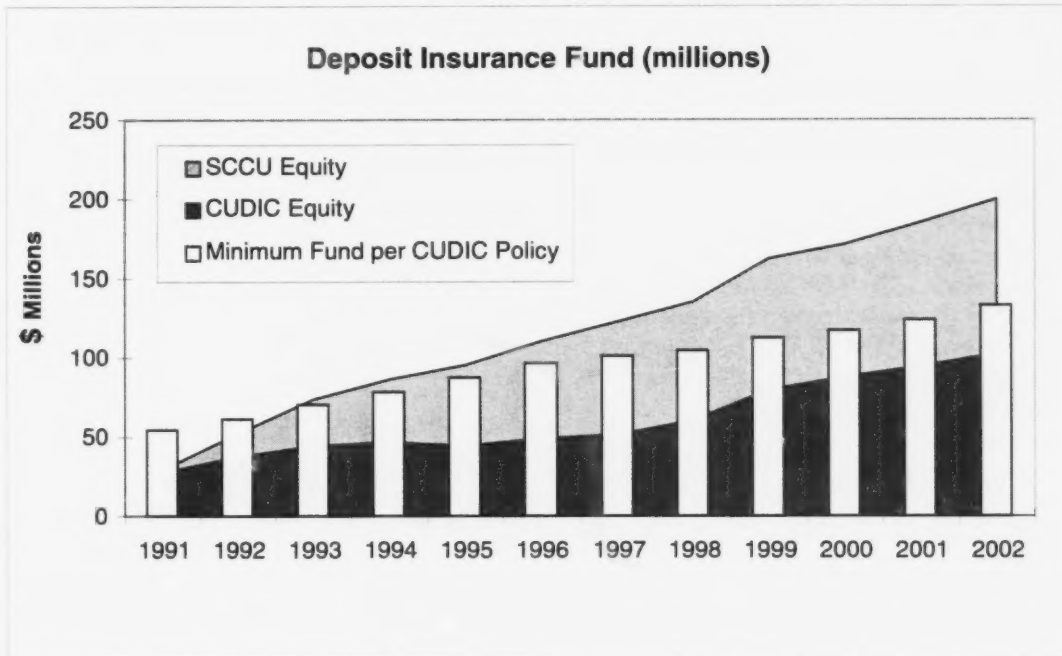
It is estimated that a minimum fund of 57.5 basis points of total credit union deposits is required to meet CUDIC's obligations.

As at March 31, 2002, accumulated earnings (including provisions) of CUDIC were \$102.6 million. In addition, the Stabilization Central Credit Union of British Columbia (SCCU) has provided an irrevocable letter of credit in favour of CUDIC issued by Credit Union Central of British Columbia totaling \$31 million. Together these two items provide CUDIC a total \$133.6 million or 59 basis points of credit union deposits at March 31, 2002, to meet its deposit insurance mandate. The total of funds available at CUDIC and SCCU to assist credit unions in the event of financial distress was \$199.6 million (or 88 basis points).

CUDIC's day-to-day administrative functions are provided by FICOM staff, as CUDIC has no operating staff. CUDIC is charged for these expenses. Two investment management firms are currently under contract to invest and manage the Deposit Insurance Fund.

| CUDIC Board of Directors                                                                                |                                |
|---------------------------------------------------------------------------------------------------------|--------------------------------|
| <b>Chair</b>                                                                                            | J. Stewart Cunningham          |
| <b>Directors</b>                                                                                        | Sharron Simpson                |
|                                                                                                         | Dr. Ronald Giammarino          |
|                                                                                                         | Alice Laberge                  |
|                                                                                                         | Edith Skiber                   |
|                                                                                                         | Chris Trumpy *<br>(ex officio) |
| *Represented by Leon de Wet,<br>Director, Financial and Corporate<br>Sector Policy, Ministry of Finance |                                |

The deposit insurance fund has grown steadily since 1991, as shown on the following chart:



**Auditor's Report on the Credit Union Deposit Insurance Corporation**

Grant Thornton LLP  
Chartered Accountants  
Management Consultants  
Canadian Member of  
Grant Thornton International

**Grant Thornton** 

**Credit Union Deposit  
Insurance Corporation  
of British Columbia  
Financial Statements**  
March 31, 2002

Grant Thornton LLP  
Chartered Accountants  
Management Consultants  
Canadian Member of  
Grant Thornton International

Grant Thornton 

## Auditors' Report

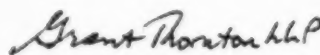
To the Board of Directors of  
Credit Union Deposit Insurance Corporation of British Columbia

We have audited the balance sheet of Credit Union Deposit Insurance Corporation of British Columbia as at March 31, 2002, and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2002, and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Financial Institutions Act of British Columbia, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Vancouver, Canada  
May 15, 2002

  
Chartered Accountants

P.O. Box 11177, Royal Centre  
Suite 2800 – 1055 West Georgia Street  
Vancouver, British Columbia  
V6E 4N3  
Tel: (604) 687-2711  
Fax: (604) 685-6569

Grant Thornton 

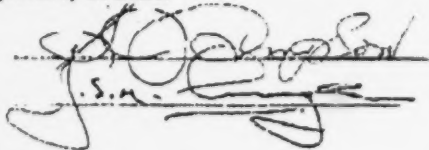
CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

BALANCE SHEET

| ASSETS                               | March 31<br>2002      | March 31<br>2001     |
|--------------------------------------|-----------------------|----------------------|
| Cash                                 | \$ 1,898,220          | \$ 641,601           |
| Investments                          |                       |                      |
| Amortized cost (note 2)              | 99,816,799            | 93,044,796           |
| Accrued interest                     | 1,319,479             | 1,370,204            |
|                                      | <u>\$ 103,034,498</u> | <u>\$ 95,056,601</u> |
| LIABILITIES AND ACCUMULATED EARNINGS |                       |                      |
| Accounts payable and accruals        | \$ 389,214            | \$ 464,743           |
| Provision for losses (note 3)        | 7,000,000             | 6,500,000            |
| Accumulated earnings                 | 95,645,284            | 88,091,858           |
|                                      | <u>\$ 103,034,498</u> | <u>\$ 95,056,601</u> |

See accompanying notes to financial statements.

Approved by the Board:



Director

Director

CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

STATEMENT OF EARNINGS AND ACCUMULATED EARNINGS

|                                             | Year Ended<br>March 31<br>2002 | Year Ended<br>March 31<br>2001 |
|---------------------------------------------|--------------------------------|--------------------------------|
| REVENUE                                     |                                |                                |
| Investments                                 | \$ 6,252,198                   | \$ 5,631,183                   |
| Assessments                                 | 4,317,449                      | 4,052,743                      |
|                                             | <u>10,569,647</u>              | <u>9,683,926</u>               |
| EXPENSES                                    |                                |                                |
| Administration (Schedule A)                 | 1,611,487                      | 1,647,364                      |
| Adjustment to provision for losses (note 3) | 500,000                        | 500,000                        |
| Investment management fees                  | 138,106                        | 163,669                        |
|                                             | <u>2,249,593</u>               | <u>2,311,033</u>               |
| NET EARNINGS BEFORE INCOME TAXES            | 8,320,054                      | 7,372,893                      |
| Income taxes (note 4)                       | 766,628                        | 667,922                        |
| NET EARNINGS                                | <u>7,553,426</u>               | <u>6,704,971</u>               |
| Accumulated earnings at beginning of year   | 88,091,858                     | 81,386,887                     |
| ACCUMULATED EARNINGS AT END OF YEAR         | <u>\$ 95,645,284</u>           | <u>\$ 88,091,858</u>           |

See accompanying notes to financial statements.

CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

STATEMENT OF CASH FLOWS

|                                                    | Year Ended<br>March 31<br>2002 | Year Ended<br>March 31<br>2001 |
|----------------------------------------------------|--------------------------------|--------------------------------|
| <b>CASH PROVIDED BY (USED FOR):</b>                |                                |                                |
| <b>OPERATIONS</b>                                  |                                |                                |
| Net earnings                                       | \$ 7,553,426                   | \$ 6,704,971                   |
| Item not involving cash                            |                                |                                |
| Increase in provision for losses                   | 500,000                        | 500,000                        |
| Loss (gain) on sale of securities                  | 324,082                        | 167,901                        |
| Changes in non-cash balances related to operations |                                |                                |
| Accounts payable and accruals                      | (75,529)                       | 151,150                        |
|                                                    | <u>8,301,979</u>               | <u>7,524,022</u>               |
| <b>INVESTING ACTIVITIES</b>                        |                                |                                |
| Securities purchased                               | (76,021,539)                   | (66,982,950)                   |
| Proceeds from sale of securities                   | 68,976,179                     | 59,936,576                     |
|                                                    | <u>(7,045,360)</u>             | <u>(7,046,374)</u>             |
| Increase in cash resources                         | 1,256,619                      | 477,648                        |
| Cash resources at beginning of year                | 641,601                        | 163,953                        |
| <b>CASH RESOURCES AT END OF YEAR</b>               | <u>\$ 1,898,220</u>            | <u>\$ 641,601</u>              |
| See accompanying notes to financial statements.    |                                |                                |
| <b>SUPPLEMENTAL INFORMATION:</b>                   |                                |                                |
| Taxes Paid                                         | \$ 748,775                     | \$ 656,667                     |

CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2002

**OPERATIONS**

The Credit Union Deposit Insurance Corporation of British Columbia (CUDIC) is a statutory corporation established under the Financial Institutions Act (FIA) and is operated as a separate entity by the Financial Institutions Commission (FICOM). The mandate of CUDIC is to guarantee deposits and non-equity shares of depositors of British Columbia credit unions up to the limits prescribed by the FIA. To meet this mandate, CUDIC undertakes administrative and regulatory functions as set out in the FIA, makes deposit insurance payments and may provide financial assistance to credit unions. To maintain the deposit insurance fund, CUDIC is empowered to assess credit unions and to issue debentures to them.

The amount, timing and form of deposit insurance payments or financial assistance which may be required for credit unions is dependent on future events and outcomes. Three outcomes that may require assistance are rehabilitation, merger or liquidation of credit unions. In the event of a liquidation, CUDIC's liability for deposit insurance is restricted to limits prescribed under the FIA. Although CUDIC normally provides both specific and general provisions for deposit insurance payments and financial assistance, currently no specific provisions are considered to be required.

Under the FIA, Stabilization Central Credit Union of British Columbia (SCCU) has been designated a stabilization authority. SCCU is a central credit union owned and controlled by the British Columbia credit union system. CUDIC may delegate specific responsibilities with respect to supervision of credit unions to SCCU. SCCU also maintains a fund to enable it to assist credit unions. Under the terms of an agreement, SCCU is obligated to provide financial assistance to credit unions it supervises should the need arise. CUDIC also has the ability to draw upon the financial resources of SCCU should the CUDIC fund, as represented by accumulated earnings and the general provision, decline below 30 basis points of credit unions' deposits and non-equity shares. SCCU's stabilization fund equity at December 31, 2001 was \$97,015,242 (2000 - \$91,077,645). Based on the agreement between CUDIC and SCCU, a line of credit issued by the latter to CUDIC for the amount of \$31.0 million, which together with CUDIC's resources gives CUDIC access to a total fund of 57.5 basis points of total deposits and non-equity shares in credit unions.

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

(a) Investments

The CUDIC investment portfolio is managed by two investment managers according to a prudent policy approved by the Board of Directors. Premiums and discounts arising at the time of purchase of investments are amortized over the period to maturity. Revenue from investments includes interest income as well as net realized capital gains or losses.

(b) Provision for Losses

CUDIC's policy for providing for losses reflects CUDIC's best estimate of losses in respect of deposit insurance and financial assistance to credit unions. CUDIC establishes two types of provisions for losses: specific and general. Specific provisions are established for losses on financial assistance provided to a credit union and an estimate of losses in respect of deposit insurance claims for a credit union in financial difficulty. The general provision reflects CUDIC's best estimate of potential losses on insured deposits where such losses cannot be reasonably estimated on an individual credit union basis. This provision is established by assessing the aggregate risk in the credit union system based on current market and economic conditions.

(c) Related Party Transactions

As indicated, CUDIC is operated as a separate entity by FICOM, a commission of the British Columbia government. Administrative expenses relating to CUDIC's mandate are charged to CUDIC. The allocation of direct salaries to CUDIC is calculated based on the activities performed by FICOM staff on tasks pertinent to the mandate of CUDIC. Other expenses, including occupancy costs, are allocated to CUDIC according to CUDIC's proportionate share of activities.

(d) Liquidity

CUDIC maintains a line of credit at the Provincial Treasury of British Columbia equivalent to the CUDIC portfolio managed by BC Investment Management Corporation (BCIMC) up to \$50 million. At March 31, 2002, the value of the portfolio managed by BCIMC was \$51.6 million. This line of credit may be drawn upon to meet short-term liquidity requirements. Any drawings against this line of credit would be secured by CUDIC's investments.

(c) Financial Instruments

The market values of the investments approximate their fair values. The fair values of all other financial instruments, which include cash, accounts payable and accruals, approximate their carrying values.

2. **INVESTMENTS**

The CUDIC investment portfolio is managed by two investment managers. The maturity or duration of investments at amortized book value is as follows:

Maturity of Specific Investments:

|            | <u>1 Year or Less</u> | <u>1-5 Years</u>    | <u>Over 5 Years</u> | <u>Total</u>      |                   |
|------------|-----------------------|---------------------|---------------------|-------------------|-------------------|
|            |                       |                     |                     | <u>2002</u>       | <u>2001</u>       |
| Canadian   | \$ 4,531,317          | \$22,519,352        | \$ 17,858,225       | \$44,908,894      | \$43,996,035      |
| Provincial | 0                     | 3,769,846           | 9,732,030           | 13,501,876        | 12,731,618        |
| Municipal  | 0                     | 400,000             | 2,065,241           | 2,465,241         | 2,480,669         |
| Corporate  | 0                     | 8,225,831           | 5,521,264           | 13,747,095        | 13,194,100        |
|            | <u>\$ 4,531,317</u>   | <u>\$34,915,029</u> | <u>\$35,176,760</u> | <u>74,623,106</u> | <u>72,402,422</u> |

Duration of Pooled Funds:

|                          | <u>Duration</u>  |                            |                            |
|--------------------------|------------------|----------------------------|----------------------------|
| Money Market Funds       | less than 1 year | 173,829                    | 138,413                    |
| Government Bond Fund     | 5.5 years        | 17,536,090                 | 14,288,450                 |
| Corporate Bond Fund      | 5.8 years        | 7,483,774                  | 6,215,511                  |
|                          |                  | <u>25,193,693</u>          | <u>20,642,374</u>          |
| <b>Total Investments</b> |                  | <b><u>\$99,816,799</u></b> | <b><u>\$93,044,796</u></b> |
| Market Value:            |                  | \$100,060,229              | \$94,634,038               |

3. **PROVISION FOR LOSSES**

|                                            | <u>Year Ended<br/>March 31, 2002</u> | <u>Year Ended<br/>March 31, 2001</u> |
|--------------------------------------------|--------------------------------------|--------------------------------------|
| Provision for losses,<br>beginning of year | \$ 6,500,000                         | \$ 6,000,000                         |
| Adjustment to provision                    | <u>500,000</u>                       | <u>500,000</u>                       |
| Provision for losses,<br>end of year       | <u>\$ 7,000,000</u>                  | <u>\$ 6,500,000</u>                  |

There is no specific provision. The \$7,000,000 general provision is currently maintained at 3 basis points of the total of all British Columbia credit unions' deposits.

#### 4. INCOME TAXES

As a deposit insurance corporation, CUDIC's taxable income is defined generally to exclude assessments from and financial assistance (or recovery thereof) to credit unions.

|                                                                                             | Year Ended<br><u>March 31, 2002</u> | Year Ended<br><u>March 31, 2001</u> |
|---------------------------------------------------------------------------------------------|-------------------------------------|-------------------------------------|
| Estimated tax expense on pre-tax income<br>at statutory tax rates of 16.98% (2001 - 17.49%) | \$ 1,412,745                        | \$ 1,279,566                        |
| Add (deduct) tax effect of:                                                                 |                                     |                                     |
| Non-taxable assessment to credit unions                                                     | ( 733,103)                          | ( 703,354)                          |
| Non-deductible provision for losses                                                         | 84,900                              | 86,775                              |
| Other                                                                                       | <u>2,086</u>                        | <u>4,935</u>                        |
| <br>Income tax expense for the year                                                         | <br><u>\$ 766,628</u>               | <br><u>\$ 667,922</u>               |

Schedule A

CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

SCHEDULE OF ADMINISTRATION EXPENSES

|                         | Year Ended<br>March 31<br>2002 | Year Ended<br>March 31<br>2001 |
|-------------------------|--------------------------------|--------------------------------|
| Salaries and benefits   | \$ 1,188,536                   | \$ 1,136,983                   |
| Directors expenses      | 5,119                          | 9,013                          |
| Travel                  | 46,083                         | 45,894                         |
| Professional services   | 112,440                        | 172,662                        |
| Information services    | 37,035                         | 42,405                         |
| Building occupancy      | 126,112                        | 131,372                        |
| Furniture and equipment | 45,858                         | 51,984                         |
| Other                   | 50,304                         | 57,051                         |
|                         | <u>\$ 1,611,487</u>            | <u>\$ 1,647,364</u>            |

See accompanying notes to financial statements.

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## Contact Information

### Market Conduct Complaints and Inquiries:

**For general queries related to the financial services sector:**

#### Financial Institutions Commission



**Website:** <http://www.fic.gov.bc.ca>

Telephone:

Credit Unions/Deposit Insurance .....604.660.0109  
Insurance Complaints/Inquiries .....604.660.2971  
Investigations/Criminal Matters .....604.660.2836  
or  
604.660.4223

Mortgage Brokers Complaints/Inquiries .....604.775.1839  
Real Estate Complaints/Inquiries .....604.660.4805  
Trust Companies .....604.660.0109  
or  
604.660.0141

Email Enquiries: .....[FICOM@gems9.gov.bc.ca](mailto:FICOM@gems9.gov.bc.ca)

Mailing Address: .....19th Floor, 1050 West Pender Street  
Vancouver, British Columbia V6E 3S7

**Inquiries and complaints regarding a licensed real estate agent, salesperson or property manager:**

#### Real Estate Council of British Columbia



**Website:** <http://www.recbc.ca>

Telephone: .....604.683.9664

Mailing Address: .....Suite 900 - 750 West Pender Street  
Vancouver, British Columbia V6C 2T8

**Inquiries and complaints regarding a licensed insurance agent, adjuster or salesperson:**

**Insurance Council of British Columbia**

Telephone:

Vancouver ..... 604.688.0321  
Toll Free ..... 1.877.688.0321

Mailing address: ..... Suite 300 - 1040 West Georgia Street  
Vancouver, British Columbia V6E 4H1

**Inquiries and complaints regarding chartered banks:**

**Office of the Superintendent of Financial Institutions (Canada)**



**Website:** <http://www.osfi-bsif.gc.ca>

Telephone: ..... 604.666.5335

Mailing Address: ..... Suite 305 - 1095 West Pender Street  
Vancouver, British Columbia V6E 2M6

**Inquiries and complaints regarding the securities industry:**

**British Columbia Securities Commission**



**Website:** <http://www.bcsc.bc.ca>

Telephone: ..... 604.899.6500

Mailing Address: ..... P.O. Box 10142 Pacific Centre  
701 West Georgia  
Vancouver, British Columbia V7Y 1M2

## Contact Information

### Deposit Insurance and Compensation Plans:

**Questions about deposit insurance and deposit taking trust companies in British Columbia:**

#### Canada Deposit Insurance Corporation



Website: <http://www.cdic.ca>

Telephone (Toll free):.....1.800.461.2342

Fax.....613.996.6095

Mailing address:.....17th Floor - 50 O'Connor Street  
P.O. Box 2340, Station "D"  
Ottawa, Ontario K1P 5W5

**Questions about deposit insurance and deposit taking credit unions in British Columbia:**

#### Credit Union Deposit Insurance Corporation of British Columbia



Website: <http://www.fic.gov.bc.ca>

Telephone (Enquiries):.....604.660.2947

Fax.....604.660.3170

Mailing Address: .....Suite 1900 - 1050 West Pender Street  
Vancouver, British Columbia V6E 3S7

**All insurance companies with a British Columbia business authorization for sale of property and casualty insurance must be members of:**

**Property and Casualty Insurance  
Compensation Corporation**



**Website: <http://www.pacicc.com>**

**Telephone (Enquiries): ..... 416.364.8677**  
**Fax ..... 416.364.5889**

**Mailing Address: ..... Suite 210 - 20 Richmond Street East**  
**Toronto, Ontario M5C 2R9**

**British Columbia businesses that sell life, accident and sickness insurance to the public must be members of:**

**Canadian Life and Health Insurance  
Compensation Corporation**



**Website: <http://www.comcorp.ca>**

**Telephone (Enquiries): ..... 416.359.2001**  
**Fax ..... 416.955.9688**

**Mailing Address: ..... Suite 1600, 1 Queen Street East**  
**Toronto, Ontario M5C 2X9**

